



PHILIP ANGELIDES
Treasurer
State of California

February 19, 2004

The Honorable Arnold Schwarzenegger
Governor
State of California
Sacramento, California 95814

Dear Governor Schwarzenegger:

I am writing this letter to follow up on my previous correspondence to you about the importance of a fiscal contingency plan in the event that the voters reject the proposed Economic Recovery Bonds (ERBs) and in the event that the courts invalidate or do not approve in a timely manner the Fiscal Recovery Bonds (FRBs) approved as part of the State's current budget. In my correspondence of October 17, 2003 and January 30, 2004, I urged you to put forth such a plan prior to March 2nd and offered the assistance of my office in the development of such a plan.

I continue to believe that it is critical to put in place a rational and balanced contingency plan, developed now and ready to be implemented, so the State can pay its financial obligations due in June and make genuine progress toward debt retirement and a structurally balanced budget. Indeed, I remain concerned that - absent a credible contingency plan that is in place and shared with the credit rating agencies, lenders, and the public - the State runs the risk of further credit downgrades and potential loss of access to the financial markets. As I have previously stated, the State need not descend into fiscal chaos or face "Armageddon" if there is such a plan.

I had hoped that your Administration would offer such a credible contingency plan. However, in its absence, I feel obligated to offer my best thoughts on a plan that can realistically be implemented should the voters or the courts not approve either of the proposed deficit bonds. Such a plan should retire the deficit, restore the State's fiscal integrity, fairly share the responsibility for retiring the State's debt and balancing the budget, and protect funding for critical services and investments such as healthcare and higher education. Regardless of our respective positions on the ERBs and the FRBs, the development of such a plan is fiscally prudent and necessary. At the very least, serious discussions and deliberations on this subject must begin now given the rapidity of action that may be required after March 2nd to meet the State's fiscal obligations.

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Attached for your review is a summary of the Contingency Plan for fiscal stability and accelerated deficit retirement that I would propose be implemented in the event that the voters do not approve the ERBs or the courts invalidate or do not approve the FRBs in a timely manner. This plan represents a balanced and fiscally prudent approach to retiring the State's debt and meeting the State's cash-flow needs. It recognizes that any true solution to the State's budget challenges – including retiring the deficit and balancing the FY 2004-05 budget – will require a fair balance of revenues and cuts. Indeed, it is consistent with the approaches historically taken by previous governors – including Governor Reagan and Governor Wilson – when they faced similar fiscal crises and deficits. Importantly, it can be enacted and implemented in a time frame that allows the State to meet its immediate financial obligations.

I strongly urge the Legislature and you to immediately consider the approach I have outlined so the State is poised to act in the event that the ERBs and FRBs are not approved. In any event, as I have noted above, it is critical that there be rapid action to enact a realistic contingency plan to ensure the State's fiscal stability. In this vein, this office continues to be available to work with your Administration and the Legislature on this matter.

Thank you for your consideration of this proposal. If you have any questions or would like to discuss this matter further, please feel free to call me at (916) 653-2795.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Phil Angelides', with a long horizontal flourish extending to the right.

Phil Angelides
State Treasurer

Attachment

cc: The Honorable Steve Westly, State Controller
The Honorable John Burton, President pro Tempore
The Honorable Fabian Nuñez, Speaker of the Assembly
The Honorable James Brulte, Senate Minority Leader
The Honorable Kevin McCarthy, Assembly Minority Leader
The Honorable Wes Chesbro, Chair, Senate Budget & Fiscal Review Committee
The Honorable Darrell Steinberg, Chair, Assembly Budget Committee